

VZCZCXRO0075

PP RUEHCD RUEHGA RUEHGD RUEHHA RUEHHO RUEHMC RUEHQU RUEHTM RUEHVC
DE RUEHBU #0070/01 0171219
ZNY CCCCC ZZH
P 171219Z JAN 07
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC PRIORITY 6980
INFO RUCNMRC/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS PRIORITY
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 000070

SIPDIS

SIPDIS

WHA/BSC FOR DUDDY, BARNES, FRIEDMAN, BLAKENEY, AND POPP
WHA/EPSC FOR KUBISKE AND ROONEY
PLEASE PASS TO USTR FOR CRONIN AND SULLIVAN
COMMERCE FOR ALEXANDER AND PEACHER

E.O. 12958: DECL: 01/16/2016

TAGS: [ETRD](#) [ECON](#) [EINV](#) [PREL](#) [AR](#)

SUBJECT: FM TAIANA AND PLANNING MINISTER DEVIDO ON MERCOSUR
AND CASA

REF: BUENOS AIRES 55

Classified By: AMBASSADOR E. ANTHONY WAYNE FOR REASONS 1.4 (B) AND (D)

11. (C) Summary. Planning Minister and influential presidential advisor Julio De Vido told Ambassador January 15 that Bolivia's membership application is the most important item for the January 19 Mercosur Summit in Rio, but that Brazil-Argentine relations will dominate substantive economic dialogue in Rio. On January 16, Foreign Minister Taiana agreed that Bolivia's application for Mercosur membership will be the most important agenda item for the Mercosur Summit and explained that Brazil's proposal to address intra-bloc investment asymmetries will be the most controversial item. Taiana also discussed the January 18 meeting of leaders from the South American Community of Nations (CASA) arguing that Brazilian President Lula and Venezuelan President Chavez are the most enthusiastic about CASA's potential. Argentina is less sanguine about the grouping, as the GOA believes it will be difficult for the 10-member body to reach consensus on issues. End Summary.

Mercosur and Broader Hemispheric Relations

12. (C) The single most important theme to be addressed at the Rio Summit will be Bolivia's application for membership, De Vido said in a January 15 meeting with the Ambassador. (Other items will be reported septel.) He argued that Ecuador's newly-elected Correa would likely follow Bolivia's lead and also apply for Mercosur membership, effectively spelling the end of the Andean Pact as a viable trade bloc, further isolating Peru and Colombia and diminishing Chile's regional influence. In a separate meeting on January 16, Foreign Minister Jorge Taiana offered the Ambassador his perspective on Bolivia's request for Mercosur membership. He noted that Bolivia wants to join the group without leaving the Andean Community (CAN), which will make Bolivia's accession technically more complex, as the common external tariff of the CAN differs significantly from Mercosur's. Nevertheless, he asserted that accession is still possible, since Bolivia has a 0 percent import tariff on many of Mercosur's products. Another potential difficulty with Bolivia's accession is the issue of preferential treatment, which it currently receives from the CAN. Mercosur can offer preferential treatment to Bolivia, but it must do so in the context of privileges Mercosur currently offers its smaller members, Uruguay and Paraguay. Mercosur will likely form a working group to explore the issues associated with Bolivia's potential membership.

13. (C) On Ecuador, Taiana stated that Quito has not formally requested Mercosur membership, but it wants to do so. He noted, however, that Quito does not want to further weaken CAN. (Taiana's other comments on Ecuador and other issues will be reported septel.) De Vido compared Ecuadorian President Correa's current political position to that of a newly-elected Chavez in 1999, arguing that Correa would spend much of his initial political capital on a similar constitutional reform exercise to limit the power of entrenched oligarchs. For its part, Venezuela will attempt to use the Rio Summit platform to gain "greater space" to highlight Chavez's social program priorities, including promoting a Mercosur anti-cyclical social fund, DeVido predicted.

14. (C) Within Mercosur, De Vido said that Presidents Lula and Kirchner would continue to act as a "moderating force," helping an expanding trade bloc maintain its economic and political equilibrium. In this context, the question of Brazil/Argentina relations will dominate substantive economic dialogue in Rio. In particular, both ministers noted that how members handle Brazil's proposal -- opposed by Argentina -- to address intra-bloc investment asymmetries by granting smaller members Uruguay and Paraguay increased flexibility on local content requirements (Reftel) will set the tone for broader Rio economic integration discussions. Taiana stated that Argentina understands the need to address asymmetries among the Mercosur's smaller members, but argued that in the area of investment, Argentina also faces asymmetries viz. Brazil.

15. (C) Taiana also noted that Argentina and Brazil's recent decision to conduct export transactions in local currency will be implemented soon and will result in cheaper export

BUENOS AIR 00000070 002 OF 002

transactions, particularly for small producers. Argentina hopes all of Mercosur will agree to this practice. He explained that since the crisis of 2001-02, the number of businesses in Argentina has increased from 8,000 to 13,000, with many of these being small businesses. The GOA hopes that this measure will help facilitate increased regional trade by small producers.

Taiana: Regional integration projects and FTAs with Third Parties

16. (C) Mercosur will also consider proposals for projects to be financed by FOCEM, Mercosur's structural integration fund. Taiana expressed disappointment with Uruguay's and Paraguay's proposals, characterizing the projects as too focused on their own national interests as opposed to advancing regional integration. Nevertheless, the GOA will vote in favor of the projects, but seek stricter standards for the next round of project proposals. With respect to Mercosur FTA negotiations with third parties, Taiana stated that progress has been made on an FTA with the Gulf Cooperation Council, but that negotiations are not yet finished (Reftel). On a Mercosur FTA with Israel, he explained that the GOI has not yet sent a response on Mercosur's latest proposal.

Taiana: Brazil and Venezuela Look to Extend Regional Influence in CASA

17. (C) Taiana also stated that all of the leaders from the South American Community of Nations (CASA), minus Colombian President Uribe, will meet in Rio on the eve of the Mercosur Summit to discuss the Community's organizational structure. (Note: According to Uruguayan press, however, Tabare Vasquez will not attend the CASA meeting, but will attend the Mercosur Summit.) The current debate centers around whether CASA will adopt: a) a CAN-like structure, with a strong Executive Secretariat and a regional development bank like

the Andean Development Corporation (CAF); or b) a Mercosur structure that has a weak institutional Secretariat, but has succeeded in achieving concrete regional cooperation on a variety of issues through its Ministerial meetings. Taiana stated that the GOA prefers the Mercosur structure, as it is less bureaucratic with regional policy determined at the Ministerial meetings. He observed that the group should avoid expanding its membership too quickly so that it will not end up working on broad issues only at a superficial level.

18. (C) Taiana opined that Brazilian President Lula and Venezuelan President Chavez are the most enthusiastic about CASA's potential as it will be a larger forum in which each country can attempt to extend its regional influence. The initiative makes sense for Brazil's regional foreign policy, which borders every country in the group except Chile and Ecuador. Taiana appeared to be less sanguine about the group's potential, stating that Argentina's and other countries' foreign policy priorities are focused mainly on the sub-region in which they are located. Consequently, the benefits are less obvious. He added that if it is difficult for Mercosur to reach consensus among its members, it will be even more difficult to reach consensus on issues among the members of CASA.

De Vido: U.S. Relations with Argentina and Brazil on an Up-swing

19. (C) Minister De Vido concluded his meeting with the Ambassador by noting that U.S. relations with Argentina and Brazil were transiting through one of their best moments in recent history, and that both countries' moderating influence in the region is of strategic importance.
WAYNE